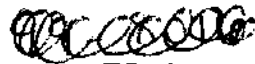


17-8010

**BAYLISS PUBLIC LIBRARY**



**A Component Unit of the  
City of Sault Ste. Marie**

**BASIC FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2004**



**REHMANN ROBSON**  
*Certified Public Accountants*

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Bayliss Public Library</b>	County <b>Chippewa</b>
Audit Date <b>June 30, 2004</b>	Opinion Date <b>November 19, 2004</b>	Date Accountant Report Submitted to State: <b>December 31, 2004</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government* in Michigan as revised.
2. We are certified public accountants registered to practice in Michigan.

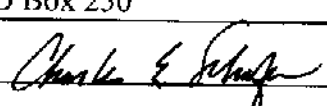
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <b>Rehmann Robson</b>		Charles E. Schafer, CPA	
Street Address <b>902 S. Huron St., PO Box 250</b>	City <b>Cheboygan</b>	State <b>MI</b>	ZIP <b>49721</b>
Accountant Signature 			

# BAYLISS PUBLIC LIBRARY

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**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

## INDEPENDENT AUDITORS' REPORT

November 19, 2004

Library Board of Directors  
Bayliss Public Library -  
a component unit of the  
City of Sault Ste. Marie  
Sault Ste. Marie, Michigan

We have audited the accompanying financial statements of the governmental activities, the governmental major fund and the permanent funds of **Bayliss Public Library** (the "Library"), a component unit of the City of Sault Ste. Marie as of and for the year ended June 30, 2004, which collectively comprise the Library's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the governmental major fund and the permanent funds of the Library as of June 30, 2004, and the respective changes in financial position thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2004, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Library has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement although not required to be part of the basic financial statements.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Library. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Rehmann Lohman*

## **BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE**  
**CITY OF SAULT STE. MARIE, MICHIGAN**

**STATEMENT OF NET ASSETS**  
**GOVERNMENTAL ACTIVITIES**

**JUNE 30, 2004**

---

<b>Assets</b>	
Cash and cash equivalents	\$ 568,058
Restricted investments	155,666
Accounts receivable, net	4,796
Capital assets not being depreciated	22,822
Capital assets, net of depreciation	<u>249,462</u>
<b>Total assets</b>	<b>1,000,804</b>
<b>Liabilities</b>	
Accounts payable	74,668
Noncurrent liabilities	
Compensated absences	<u>22,077</u>
<b>Total liabilities</b>	<b>96,745</b>
<b>Net assets</b>	
Invested in capital assets	272,284
Restricted for endowments	155,666
Unrestricted	<u>476,109</u>
<b>Total net assets</b>	<b><u>\$ 904,059</u></b>

The accompanying notes are an integral part of these financial statements.



**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE**  
**CITY OF SAULT STE. MARIE, MICHIGAN**  
**STATEMENT OF ACTIVITIES**  
**GOVERNMENTAL ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2004**

<b>Program expenditures</b>	
<b>Recreation and culture</b>	<b>\$ 648,377</b>
<b>Program revenues</b>	
Charges for services	130,880
Penal fines	120,172
Refunds and reimbursements	108,934
State sources	31,012
Grants	9,028
Miscellaneous	8,621
<b>Total program revenues</b>	<b>408,647</b>
<b>Net program expenses</b>	<b>(239,730)</b>
<b>General revenues</b>	
Local sources	182,000
Interest earnings	9,609
<b>Total general revenues</b>	<b>191,609</b>
<b>Change in net assets</b>	<b>(48,121)</b>
Net assets, beginning of year	952,180
<b>Net assets, end of year</b>	<b>\$ 904,059</b>

The accompanying notes are an integral part of these financial statements.

**FUND FINANCIAL STATEMENTS**

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE**  
**CITY OF SAULT STE. MARIE, MICHIGAN**

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

JUNE 30, 2004

	General Fund	Permanent Funds Bayliss Trust	Seal Trust	Total Governmental Funds
<b>ASSETS</b>				
<b>Assets</b>				
Cash and cash equivalents	568,058	\$ -	\$ -	\$ 568,058
Restricted investments	-	61,319	94,347	155,666
Accounts receivable, net	4,796	-	-	4,796
<b>Total assets</b>	<b>\$ 572,854</b>	<b>\$ 61,319</b>	<b>\$ 94,347</b>	<b>\$ 728,520</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 74,668	-	-	\$ 74,668
<b>Fund balance</b>				
<b>Fund balance</b>				
Reserved for endowments	-	61,319	94,347	155,666
Unreserved and undesignated	498,186	-	-	498,186
<b>Total fund balances</b>	<b>498,186</b>	<b>61,319</b>	<b>94,347</b>	<b>653,852</b>
<b>Total liabilities and fund balance</b>	<b>\$ 572,854</b>	<b>\$ 61,319</b>	<b>\$ 94,347</b>	<b>\$ 728,520</b>
<b>Reconciliation of fund balance above to the statement of net assets</b>				<b>\$ 653,852</b>
Amounts reported for component units in the statement of net assets is different because				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				
Add - capital assets (net)				272,284
Certain liabilities, such as accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.				
Deduct - compensated absences payable				(22,077)
<b>Net assets of component unit</b>				<b>\$ 904,059</b>

The accompanying notes are an integral part of these financial statements

# BAYLISS PUBLIC LIBRARY

## A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE, MICHIGAN

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	General Fund	Permanent Funds		Total Governmental Funds
		Bayliss Trust	Seal Trust	
<b>Revenues</b>				
Local sources	\$ 182,000	\$ -	\$ -	\$ 182,000
Charges for services	130,880	-	-	130,880
Penal fines	120,172	-	-	120,172
Refunds and reimbursements	108,934	-	-	108,934
State sources	31,012	-	-	31,012
Grants	9,028	-	-	9,028
Interest earnings	8,189	618	802	9,609
Miscellaneous	8,621	-	-	8,621
<b>Total revenues</b>	<b>598,836</b>	<b>618</b>	<b>802</b>	<b>600,256</b>
<b>Expenditures</b>				
Recreational and culture	573,937	-	-	573,937
<b>Change in fund balance</b>	<b>24,899</b>	<b>618</b>	<b>802</b>	<b>26,319</b>
Fund balance, beginning of year	473,287	60,701	93,545	627,533
<b>Fund balance, end of year</b>	<b>\$ 498,186</b>	<b>\$ 61,319</b>	<b>\$ 94,347</b>	<b>\$ 653,852</b>
Reconciliation of the statement of revenues, expenditures and changes in fund balance to the statement of activities				
Net change in fund balance				\$ 26,319
Amounts reported in statement of activities are different because				
Governmental funds report capital outlay as expenditures. However, the statement of activities, the cost of those assets is allocated over their estimated useful lives reports as depreciation expense.				
Deduct - depreciation expense				(74,391)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.				
Deduct - increase in compensated absences				(49)
<b>Change in net assets</b>				<b>\$ (48,121)</b>

The accompanying notes are an integral part of these financial statements.

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE**  
**CITY OF SAULT STE. MARIE, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**

**FOR YEAR ENDED JUNE 30, 2004**

	<b>Budgeted Amounts Original and Final General Fund</b>	<b>Actual Amounts (Budgetary Basis)</b>	<b>Actual Over (Under) Final Budget</b>
<b>Revenues</b>			
City appropriation	\$ 182,000	\$ 182,000	\$ -
Charges for service	133,668	130,880	(2,788)
Penal fines	149,339	120,172	(29,167)
Refunds and reimbursements	108,846	108,934	88
State sources	27,520	31,012	3,492
Grants	6,000	9,028	3,028
Interest	17,500	8,189	(9,311)
Miscellaneous	7,200	8,621	1,421
<b>Total revenues</b>	<b>632,073</b>	<b>598,836</b>	<b>(33,237)</b>
<b>Expenditures</b>			
<b>Recreation and culture</b>			
Salaries and wages	418,902	361,506	(57,396)
Fringes	53,309	48,020	(5,289)
Supplies and materials	85,245	60,024	(25,221)
Postage	2,775	2,225	(550)
Maintenance supplies	2,000	1,865	(135)
Telephone	5,448	5,542	94
Travel	1,283	888	(395)
Professional development	1,475	1,155	(320)
Insurance	5,000	298	(4,702)
Electricity	10,000	9,996	(4)
Fuel	8,500	5,413	(3,087)
Water and sewer	1,200	301	(899)
Equipment repairs	700	211	(489)
Building maintenance	24,000	20,014	(3,986)
Contractual services	34,600	36,149	1,549
Capital outlay	8,855	1,450	(7,405)
Cooperative services	15,260	13,600	(1,660)
Miscellaneous	9,031	5,280	(3,751)
<b>Total expenditures</b>	<b>687,583</b>	<b>573,937</b>	<b>(113,646)</b>
<b>Changes in fund balance</b>	<b>(55,510)</b>	<b>24,899</b>	<b>80,409</b>
Fund balance, beginning of year	473,287	473,287	-
<b>Fund balance, end of year</b>	<b>\$ 417,777</b>	<b>\$ 498,186</b>	<b>\$ 80,409</b>

**NOTES TO THE FINANCIAL STATEMENTS**

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE**

**NOTES TO THE FINANCIAL STATEMENTS**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The accounting policies of the *Bayliss Public Library*, a component unit of the City of Sault Ste. Marie, Michigan (the "Library") conform to accounting principles generally accepted in the United State of America as applicable to governmental units. The following is a summary of the significant accounting policies:

In accordance with the provisions of the Governmental Accounting Standards Board Statement 14, and the Statement on Michigan Governmental Accounting and Auditing No. 5, certain other governmental organizations are not considered to be part of the Library entity for financial reporting purposes. The criteria established by GASB for determining the various governmental organizations to be included in the Library's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, there are no other governmental organizations' financial statements included in the financial statements of the Library.

**B. Government - wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on the non-fiduciary activities of the Library. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Library had no *business-type activities* during the year ended 2004.

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE**

**NOTES TO THE FINANCIAL STATEMENTS**

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Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following funds as major funds:

The *General Fund* is the Library's primary operating fund. It accounts for all financial resources of the Library.

The *Bayliss Trust and Seal Trust* are the Library's Permanent Funds. The principal portion of these funds must stay intact, but the interest earnings are used to provide for purposes defined by each trust.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Assets, liabilities and equity**

**1. Deposits and investments**

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Restricted investments, consisting of certificates of deposit restricted for Library maintenance, are reported at fair value.



**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE**

**NOTES TO THE FINANCIAL STATEMENTS**

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**2. *Capital assets***

Capital assets, which include the book collection, property and equipment are reported in the governmental activities in the government-wide financial statements. Capital assets are defined by the Library as assets that are used in operations and have initial useful lives beyond a single reporting period. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are purchased or constructed. Capital assets of the Library are depreciated using the straight line method over the estimated useful lives of five to twenty years.

**3. *Compensated absences***

It is the Library's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary information**

The Library adopts an annual budget each year for expenditures applicable to the General Fund. The operating budget includes proposed expenditures and the means of financing them and is stated on a basis consistent with generally accepted accounting principles (GAAP). Budgets lapse at fiscal year end.

**B. Excess of expenditures over appropriations**

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statements of Revenues, Expenditures and Changes in Fund Balance -- Budget and Actual -- General Fund.

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE**

**NOTES TO THE FINANCIAL STATEMENTS**

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**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and investments**

Cash and investments as shown on the Balance Sheet and Statement of Net Assets are as follows:

Cash and cash equivalents	<u>\$ 568,058</u>
Investments	<u>\$ 155,666</u>
Bank deposits (checking accounts, savings accounts and CDs)	<u>\$ 723,724</u>

At year end, the carrying amount of the Library's deposits was \$723,724. The bank balance of these deposits was \$747,551, of which \$484,477 was insured by the Federal Depository Insurance Corporation (FDIC) and the remaining \$263,074 was uninsured.

For the purpose of providing an indication of the assumed levels of risk, investments are categorized as follows:

- Category 1** Investments that are insured or registered or for which the securities are held by the EDC or its agent in the Library's name.
- Category 2** Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Library's name.
- Category 3** Uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Library's name.

Michigan law authorizes the Library to deposit and invest in:

- (a) Bonds, securities, and other obligations of the United States of America or an agency or instrumentality of the United States of America.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this State or the United States of America.
- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE**

**NOTES TO THE FINANCIAL STATEMENTS**

- (d) Repurchase agreements consisting of instruments listed in (a) above Bankers' acceptances of United States of America banks.
- (e) Obligations of the State of Michigan or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- (f) Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 USC 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- (g) Obligations described in (a) through (g) above if purchased through an interlocal agreement under the Urban Corporation Act of 1967, 1967 (EX Sess) PA 7, MCL 124.501 to 124.512.
- (h) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- (i) The investment pools organized under the Local Government Investment Pool Act, 1985, PA 121, MCL 129.141 to 129.150.

**B. Capital assets**

Capital assets activity was as follows for the year ended June 30, 2004:

	<u>July 1, 2003</u>	<u>Additions</u>	<u>June 30, 2004</u>
<b>Capital assets not being depreciated</b>			
Land	<u>\$ 22,822</u>	<u>\$ -</u>	<u>\$ 22,822</u>
<b>Capital assets being depreciated</b>			
Land improvements	\$ 15,250	\$ -	\$ 15,250
Furniture and equipment	430,437	-	352,242
Building	474,260	-	474,260
Book collection	<u>1,937,944</u>	<u>-</u>	<u>1,937,944</u>
<b>Subtotal</b>	<u><b>2,857,891</b></u>	<u><b>-</b></u>	<u><b>2,857,891</b></u>

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE**

**NOTES TO THE FINANCIAL STATEMENTS**

	<u>July 1, 2003</u>	<u>Additions</u>	<u>June 30, 2004</u>
<b>Accumulated depreciation</b>			
Land improvements	\$ 15,250	\$ -	\$ 15,250
Furniture and equipment	352,242	27,949	380,191
Building	326,054	11,856	337,910
Book collection	<u>1,840,492</u>	<u>34,586</u>	<u>1,875,078</u>
<b>Total accumulated depreciation</b>	<u><b>2,534,038</b></u>	<u><b>74,391</b></u>	<u><b>2,608,429</b></u>
<b>Capital asset being depreciated, depreciated, net</b>	<u><b>323,853</b></u>	<u><b>74,391</b></u>	<u><b>249,462</b></u>
<b>Governmental activities capital assets, net</b>	<u><b>\$ 346,675</b></u>	<u><b>\$ 74,391</b></u>	<u><b>\$ 272,284</b></u>

Unallocated depreciation expense for the year ended June 30, 2004 was \$74,391.

**C. Compensated Absences**

Accumulated compensated absences activity was as follows for the year ended June 30, 2004:

	<u>Balance July 1 2003</u>	<u>(Increases)</u>	<u>Balance June 30, 2004</u>	<u>Due Within One Year</u>
<b>Accrued compensated absences</b>	<u><b>\$ 22,028</b></u>	<u><b>\$ 49</b></u>	<u><b>\$ 22,077</b></u>	<u><b>\$ -</b></u>

**D. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE**

**NOTES TO THE FINANCIAL STATEMENTS**

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**IV. OTHER INFORMATION**

**A. Defined benefit pension plan**

**Plan Description**

Bayliss Public Library's (a component unit of the City of Sault Ste. Marie, Michigan), (the "Library") defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

**Funding Policy**

The Library is required to contribute at an actuarially determined rate. The Library is currently required to make no contributions to the Plan. Library employees are also currently not required to make contributions. The contribution requirements of the Library are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Library, depending on the MERS contribution program adopted by the Library.

**Annual Pension Cost**

The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.2% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the last actuarial valuation, was 30 years.

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE**

**NOTES TO THE FINANCIAL STATEMENTS**

**Three-Year Trend Information**

<b><u>Fiscal Year Ending</u></b>	<b><u>Annual Pension Cost (APC)</u></b>	<b><u>Percentage of APC Contributed</u></b>	<b><u>Net Pension Obligation</u></b>
6/30/02	\$ -	0%	\$ -
6/30/03	-	0%	-
6/30/04	-	0%	-

**Schedule of Funding Progress**

<b><u>Actuarial Valuation Date</u></b>	<b><u>Actuarial Value of Assets (a)</u></b>	<b><u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u></b>	<b><u>Over- funded AAL (UAAL) (b-a)</u></b>	<b><u>Funded Ratio (a/b)</u></b>	<b><u>Covered Payroll (c)</u></b>	<b><u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u></b>
12/31/99	\$ 912,064	\$ 677,202	\$ 234,861	135%	\$ 158,267	0%
12/31/00	977,093	734,984	242,108	132%	165,026	0%
12/31/01	1,022,077	769,629	252,448	133%	173,026	0%
12/31/02	1,017,843	812,901	204,942	125%	150,842	0%
12/31/03	986,076	553,784	432,292	178%	140,820	0%

**B. Commitments and Contingencies**

The Bayliss Public Library receives financial assistance from state agencies in the form of grants. The disbursement of funds from the various programs generally requires compliance with terms and conditions specified in the applicable grant agreement and is subject to examination by the grantor agency. Any disallowed claims resulting from such examination could become a liability of the Bayliss Public Library.

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## **SUPPLEMENTARY INFORMATION**

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE**  
**CITY OF SAULT STE. MARIE, MICHIGAN**  
**COMBINING BALANCE SHEET**  
**GENERAL FUND**

**JUNE 30, 2004**

	<u>General Operations</u>	<u>Branch Operations</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 345,000	\$ 223,058	\$ 568,058
Accounts receivable	4,796	-	4,796
Due from other funds	7,624	-	7,624
<b>Total assets</b>	<u><u>\$ 357,420</u></u>	<u><u>\$ 223,058</u></u>	<u><u>\$ 580,478</u></u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable	\$ 72,898	\$ 1,770	\$ 74,668
Due to other governmental units	-	-	-
Due to other funds	-	7,624	7,624
<b>Total liabilities</b>	<u>72,898</u>	<u>9,394</u>	<u>82,292</u>
<b>Fund balance</b>			
Fund balance			
Unreserved and undesignated	284,522	213,664	498,186
<b>Total fund balance</b>	<u>284,522</u>	<u>213,664</u>	<u>498,186</u>
<b>Total liabilities and fund balance</b>	<u><u>\$ 357,420</u></u>	<u><u>\$ 223,058</u></u>	<u><u>\$ 580,478</u></u>



**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE**  
**CITY OF SAULT STE. MARIE, MICHIGAN**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2004**

	<b>General Operations</b>	<b>Branch Operations</b>	<b>Total</b>
<b>Revenues</b>			
City appropriations	\$ 182,000	\$ -	\$ 182,000
Penal fines	120,172	-	120,172
State sources	31,012	-	31,012
Operating grants	9,028	-	9,028
Charges for service	24,537	106,343	130,880
Interest	5,396	2,793	8,189
Refunds and reimbursements	108,474	460	108,934
Other	8,621	-	8,621
<b>Total revenues</b>	<u>489,240</u>	<u>109,596</u>	<u>598,836</u>
<b>Expenditures</b>			
Recreational and culture	<u>476,906</u>	<u>97,031</u>	<u>573,937</u>
<b>Changes in fund balance</b>	12,334	12,565	24,899
Fund balance, beginning of year	<u>272,188</u>	<u>201,099</u>	<u>473,287</u>
<b>Fund balance, end of year</b>	<u><u>\$ 284,522</u></u>	<u><u>\$ 213,664</u></u>	<u><u>\$ 498,186</u></u>



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

November 19, 2004

Board of Directors  
Bayliss Public Library  
A Component Unit of the  
City of Sault Ste. Marie  
Sault Ste. Marie, Michigan

We have audited the accompanying financial statements of the governmental activities and the major funds of **Bayliss Public Library** (the "Library") a component unit of the City of Sault Ste. Marie, as of and for the year ended June 30, 2004, which collectively comprise the Library's basic financial statements, as listed in the table of contents, and have issued our report thereon dated November 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Library in a separate letter dated November 19, 2004.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and the City Commission and is not intended to be and should not be used by anyone other than these specified parties.





# REHMANN ROBSON

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

November 19, 2004

Board of Directors  
Bayliss Public Library  
Sault Ste. Marie, Michigan 49783

We have audited the basic financial statements of ***Bayliss Public Library, a component unit of the City of Sault Ste. Marie, Michigan*** (the "Library") for the year ended June 30, 2004, and have issued our report thereon dated November 19, 2004. Professional standards require that we provide you with the following information related to our audit.

***Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards***

As stated in our engagement letter dated November 10, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Library's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### ***Significant Accounting Policies***

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Library are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal 2004. We noted no transactions entered into by the Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### ***Accounting Estimates***

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### ***Audit Adjustments***

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Library that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Library's financial reporting process.

### ***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Issues Discussed Prior to Retention of Independent Auditors***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Directors and management of the Library and is not intended to be and should not be used by anyone other than these specified parties.

*Rehmann Lohman*